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DISCUSSION

ON RECIPROCITY AND PREFERENTIAL TARIFFS

H. PARKER WILLIS : In listening to the very significant papers just presented to the Association, there is one fact which stands out above others. This is the declining importance assigned to Reciprocity as a commercial expedient. It seems that the trend of the views expressed this afternoon is representative in a remarkable way of the drift of political and practical opinion the world over. At least two reasons why reciprocity is impossible and unsuitable as a commercial policy are being recognized.

For the past fifteen or twenty years tariff reformers have been more or less inclined to regard reciprocity as a means of practicable tariff reform. It has been felt by many persons that, if a beginning could be made with a few articles or schedules, it might be possible, by gradual extensions of the policy, to bring within its scope enough articles to constitute on the whole a very respectable approach to free trade conditions. Experience has shown, however, that it is no easier to secure a reduction of duty on a competitive article when such reduction is to carry with it a corresponding reduction in some foreign tariff, than to get the reduction when no such exchange is to take place. This amounts to saying that free trade opinion, backed by the self-interest of one group of manufacturers or other exporters, is of little if any more weight than when independently exerted. In such cases, the added support gained by tariff revisers from the self-interest of exporters is more than offset by the opposition of the protected manufac-

turers in the foreign country who conceive that their interests are affected by the proposed reductions. It makes no difference whether the conflict of interests here referred to occurs when the provisions of the reciprocity treaties themselves are being shaped, or whether it is manifested when the agreements come up for discussion before some legislative body. The difficulties are there—and they are ineradicable.

In practice it is, and must continue to be, impossible to make reciprocity by special treaty effective except where one country grants reductions on some article which it does not produce in return for similar reductions granted by a foreign country upon articles which it does not produce, but the former does. As there is no reason, from the protective standpoint, for the existence of duties on non-competitive goods except as a basis for negotiation; and as revenue considerations could in no case be expected to give way to reciprocity negotiations, tariff reformers have very generally come to the conclusion that reciprocity is not an idea with which they can have any dealings. This conclusion is even strengthened when reciprocity assumes the form of maximum and minimum tariff proposals. In such tariff schemes, the minimum tariff is invariably put so high as to afford full protection to competing industries, the maximum remaining simply as a general threat as to what will be done if the tariff of some foreign country does not assume a desired shape. Thus, from the standpoint of the tariff reformer, reciprocity is either a farce or an impossibility and in neither light does it appeal to him.

During the past decade, also, reciprocity has been taken up by some minds among protectionists as a possible mode of getting away with ease and dignity from the extreme protectionist position. They have not felt

willing to confess the need of tariff revision, although they have not been able to conceal from themselves the fact that conditions were rapidly becoming such as to call for a change which was almost certain to be demanded by the consuming public. This was substantially the state of mind in which President McKinley found himself during the latter days of his life, according to those who were closest to him. Such protectionists have, however, invariably found themselves confronted with precisely the same difficulties as tariff reformers, though in a more aggravated shape, as soon as they attempted to put their notions into practice. Where the effort has been made merely to lop off protection that has become superfluous through changes in prices, while retaining full and complete protection, foreign producers have speedily seen through the sham, and have declined to be hoodwinked. Where any real reduction of duties below the prohibitive point has been attempted, the difficulty has been greater by far than the mere reduction of the tariff without reference to any action on the part of foreign countries, while the surroundings and accompaniments of the movement have been such as to deprive it of the support of tariff reformers or free traders. The result has been that protectionists disposed toward temporizing or reform have quickly found that what seemed a short and easy road to change was more difficult than the familiar path. The growing recognition by tariff reformers of the fraudulent character of this kind of reciprocity has deprived politicians of the support they expected to get from their critics, while it has wholly failed to quiet the latter.

For these two reasons therefore—namely, that reciprocity does not satisfy the logical sense of the tariff reformer and fails to meet the needs of the practical poli-

tician, the policy has rapidly declined in favor with both sides of the tariff controversy, or rather has never been able to attain the commanding position predicted for it. What is true of the United States is likewise true *mutatis mutandis* of foreign countries.

The fact that reciprocity has maintained a place in political platforms, and has done some service as a local issue in the United States, besides acting as the basis for the scheme of an imperial tariff federation for England and her colonies, may seem hard to explain in view of the fact just alleged that the doctrine serves the purposes of neither the one side nor the other in the tariff controversy. Closer analysis shows that no such inconsistency as here appears really exists.

Mr. Shortt has very clearly described the willingness of the British manufacturer to sacrifice the British consumer of agricultural products, while he has also suggested the readiness of Canadian producers to sacrifice the home consumer of their products through higher protection against foreign, non-British manufactures, nominally designed to compensate England for exclusive privileges to Canadian grain growers. This has been precisely the situation in the United States. The fact is that the protective controversy now seems to be entering upon a new stage in its development. Until recently, the control of the home market was the dominating conception of protectionists everywhere. But, with the growth of the trust movement and the development of the export-price system, there has grown up a distinct feeling among a class of our manufacturers that the home market is not enough, and that they must gain control of foreign markets for their goods in addition. In other words, the protectionists, having gained all the advantage over the consumer that they could ask, are

now showing signs of disintegration into groups, each of which would like to sell out the interests of the others. This is what is often called reciprocity, and it is from such small groups of producers, sectional in character—whether by chance of location or by interest—that the outcry for reciprocity comes and is maintained.

In this connection, an interesting outgrowth of the reciprocity situation is to be noted. Mr. Shortt has very pointedly commented upon the possible friction growing out of trade preferences founded upon sentimental instead of business considerations. The fact is that while it is to the interest of any country as a whole to have its commercial relations founded upon a business, rather than a sentimental basis, it is the latter basis only, upon which appeals so manifestly ill-founded as the reciprocity arguments can succeed. As Mr. Hobson has very clearly pointed out, in his work on Imperialism, the colonial policy, with preferential tariffs, discriminating duties, etc., etc., is very unprofitable to the mother country, but is highly remunerative to the special interests both at home and in the colonies which are affected by it. Were such interests to appear, boldly avowing their true motives in demanding colonial federation, preferential tariffs, reciprocity, etc., the public would not give ear for an instant. It is only when marked by appeals to what Mr. Shortt happily terms "sentimental considerations" that the policy of tariff discrimination in this form will be even considered by the average man, for it has neither the merits of complete protection nor those of free trade or tariff liberalization. The spirit of militancy and the argument for economic self-sufficiency invoked in behalf of the tariff policy itself is likewise called into play to apologize for discriminations between producers, efforts at colonial

preference, etc. Reciprocity, standing on its own basis, as negotiated between two countries of equal standing, has little or no chance of success. No set of politicians is, under such conditions, able very long to hoodwink both foreigners and a large section of their own community into a serious attitude toward the question. When the proposed policy becomes confused with that of Imperialism, real danger to the consuming classes and to the nation as a whole is incurred.

GEORGE M. FISK: My reply to the very interesting and able papers which have just been read is, I realize, no reply at all. There is little in them to which exception may be taken. In the few minutes allowed me, therefore, I shall present a few thoughts of my own relating to the subject at hand, although it is quite probable that, while in agreement in the main with the positions taken in the principal papers, the previous speakers will not readily agree with the standpoint here maintained.

The speech of Mr. Joseph Chamberlain at Birmingham on May 15, 1903, advocating closer economic and political relations between Great Britain and her colonies, by means of preferential tariff rates, has precipitated a very acrimonious discussion upon the general fiscal policy of the British Empire. The agitation is reflected not only in the daily press, but also in pamphlet and periodical literature, in books, in speeches in and out of parliament, and in public and private industrial investigations. Although centered in England, the discussion has assumed world-wide proportions, and covers all conceivable standpoints. Writers and speakers are attempting to fortell the effects of the proposed plan upon Great Britain, upon her colonies, upon foreign countries, or upon the policy of English free trade and

colonial protection. The economic, political, historical and theoretical phases of the subject are all considered. Some are interested in immediate effects, while others dwell upon distant future results. Much of the literature on the subject lacks the scientific spirit, as opinions are largely preconceived. Thus, for example, Professor Cunningham recently began a discussion of the question with these words: "I also wish to introduce myself as a convinced free-trader; I loyally accept the position of Adam Smith; I am quite clear as to the principle being economically sound, and I am in hopes that it will sooner or later be accepted by all commercial countries." (*Economic Review*, January, 1904.) English writers and speakers are terribly afraid of the term "protection." Champions of the preferential idea are prone to introduce themselves as "opposed to protection." Mr. Chamberlain, for example, in his Birmingham speech, said: "I am perfectly certain that I am not a protectionist," and yet he tells us that protectionist countries are prospering at the expense of Great Britain, and the latter must imitate the example of such countries as the United States and Germany if she would continue to prosper. His scheme contemplates import duties upon both food and manufactured products, some duties, such as those on flour and wine, being particularly high in order to protect the native miller and the colonial wine grower.

It is interesting to note the development of colonial policies. During the three centuries following the great discoveries, the philosophy and the policy upon which colonization was based was that colonies existed largely for the benefit of the mother country. The revolt of the American colonies from Great Britain, Spain and Portugal during the latter part of the eighteenth

century and the first half of the nineteenth century, together with the development of democracy during the same period engendered a philosophy that colonies were valuable to the mother country only during their early period when population was sparse and when resources consisted of raw material and food products. When population increased and manufactures developed and the colonies became less economically dependent upon the mother country, it was assumed that political separation would follow. The development of international competition in recent years has tended toward a revival of colonial interest.

In Great Britain this is shown, among other ways, in the organization of the "Imperial Federation League," in 1884, and the "British Empire League," in 1895, the latter date being contemporaneous with the appointment of Mr. Chamberlain as colonial secretary. The proposition for the mother country to tax herself for the benefit of the colonies seems to me to be another step in the general trend of colonial politics during the past few decades. Concessions have been granted the colonies from time to time while the burdens have been retained by the mother country, until now we seem to have arrived at the general conclusion that the mother country exists for the benefit of the colonies rather than that the latter are valuable only as they economically benefit the former. This statement may be only a partial truth, but to the extent that it is the truth, it is opposed to imperial federation. The colonies economically are an increasing expense to Great Britain and she pays these expenses, in a large measure, by her trade with foreign countries which constitutes 80 per cent. of her total import trade and over 60 per cent. of the total value of her exports. The realization that the indus-

trial and commercial possibilities of Great Britain, compared with other countries like the United States, do not warrant increasing expenditures, leads to the proposal of a scheme which if carried out would—if the consensus of English opinion is to be taken—mean an added burden. And yet in spite of this increased burden, men like Professor W. J. Ashley make statements similar to the following: "That the Empire will split up within the next few decades if things go on as they are, I no more doubt than I doubt the sun's rising to-morrow. I cannot conceive that history can have any lesson at all for us if this is not one of them. . . . The only likely way that I can see to bind the empire together is a preferential trade policy." (*Economic Journal*, March 4, 1904.)

Now, understanding that the present plan of preferential tariffs means that the import duties of the various countries of the British Empire should be lower for inter-imperial than for international trade, the eventual ideal being free trade within the empire and little or no trade with foreign countries, that is a self-sustaining empire—an ideal that few believe realizable, I desire to state briefly my own point of view, not as to immediate effects, but as to more distant future results. If we go back in history a few hundred years to the period of feudalism, we find both a political and economic system local in character. Wants were few and easily satisfied. These local centres were self-sustaining. From that time to the present the general trend, both political and economic has been in the direction of centralization. The economic phase finds expression in the modern trust, while the political side realizes itself in the growth of national and imperial federation. There are many factors more or less essential for the successful develop-

ment of the latter, the most important being contiguous territory, interstate or domestic free trade, racial affiliations, such as similarity in language, law and general ideas, economic interdependence, ability of the federated territory to supply, in a large measure, its own wants in order to effectuate the basal idea of "self-sufficiency," and finally the character of a people, this being largely determined by climate—nations of the temperate zone dominating those of the arctic or tropical. It is not meant that all these conditions are a *sine qua non* to federation, but that their existence tends toward that complete federation which seems to be the dream of the British imperial federationists. While some of these conditions are found in common in Great Britain and her self-governing colonies, taking the British Empire, in its entirety all these factors are partially or completely lacking.

In this connection I desire to quote Professor C. F. Bastable who, in discussing various successful federations in a recent number of the *Economic Journal* (Dec., 1902, p. 507), said: "All the cases just mentioned possess one important feature in common. The areas so wrought together were adjacent. Their inclusion in a single customs region necessarily reduced the expense of guarding the frontier and relieved trade from inconvenient restrictions. This is in truth the great merit of a customs union; it makes trade completely free within the field of its operation, while it does not, or need not, involve any great obstruction to intercourse with places outside its territory. . . . There is little need for insisting on the fact that no union of this kind is possible for the British Empire. . . . Fiscal systems must be adapted to the countries in which they are employed, and it is this principle of relativity that decisively condemns any

attempt to unite the several members of the British Empire divided, as they are, from each other by the diameter of the globe. The tax forms most effective in India are not those proper in the United Kingdom, nor could either be applied to Australia or South Africa." The proper conditions for the realization of the federal ideal are found on the North American continent, centered between 35° and 50° north latitude; in South America between 20° and 40° south latitude; in South Africa, in Eurasia, dominated in the East by Russia, in the West by Germany, and flanked by two island kingdoms or empires, Great Britain on the West with no opportunities for contiguous expansion, and Japan on the East with indefinite possibilities of island expansion or of political amalgamation with the yellow continental races, either movement bringing her eventually in collision with Australia, whose natural expansion is Northward.

There are some who prognosticate future political world domination more on racial bases and reduce the number of world powers to two, one under Anglo-Saxon and the other under Slav leadership, a possible third power being represented by the so-called "yellow races." Not to get too far from home, let us centre our attentions upon conditions and tendencies on the North American continent. When the American colonies severed their political relations with Great Britain, they confederated upon the basis of individual state control of commerce, but it soon proved unworkable, and they were obliged to federate upon the basis of interstate free trade. Upon this basis the United States has expanded until now, all things considered, she represents the greatest absolute free trade area in the world. Her expansion has been along East and West lines—abundant cheap lands, rich in agricultural possibilities and in minerals,

an effective governmental administration and productive labor and capital being the favoring conditions. The Pacific has been reached, a period of more intense internal development has arrived and a new movement of capital and population along North and South lines has begun. Railway lines are being projected from the Arctic to the Tropics; American capital by the hundreds of millions is pouring into Mexico and British North America, and American citizens by the tens of thousands are making permanent settlements in Western Canada, 47,000 out of a total of 122,000 settlers coming from the States in 1903. This condition will powerfully affect political sentiment in Canada. Although this movement is a belated one, owing largely to political causes, it is nevertheless a natural one—natural because favored by all the conditions previously referred to as being more or less essential for the development of the federal ideal.

To mention only the geographical situation, I can do no better than to quote from a very recent work on "Canada and the Empire" by two English writers, with a preface by Lord Rosebery: "First in the west there is British Columbia, a beautiful country which is both fertile and rich in minerals and is by nature far more closely connected with the Pacific States of the Union than with the rest of Canada. . . . The Prairie country is separated from the prairie country of the United States simply by a geographical line and is cut off from Eastern Canada by several hundred miles of barren and unproductive country on the North shore of Lake Superior. . . . This (Eastern) part of Canada again should, if geographical conditions alone had play, be more closely allied with the Eastern States of the Union than with western Canada." If British Imperial

Federation is to realize itself anywhere it ought to be with England's most advanced self governing colony—Canada, but we find that in spite of high tariffs between the latter and the United States, American-Canadian economic dependence is increasing at a greater rate than that of Anglo-Canadian, although the latter is favored by preferential tariff rates as regards Canadian imports from Great Britain while her exports to the mother country pay no tariff duties. In 1854, 51 per cent of Canada's foreign trade was with the mother country while in 1903 the percentage was only 39. For the same dates, Canada's trade with the United States was 34 and 44 per cent. respectively. Comparing the foreign commerce of Canada in 1896—just preceding the inauguration of her preferential scheme—with 1903, we find that her trade with Great Britain shows an increase of 104 per cent while her trade with the United States increased 112 per cent. As regards imports, those from the mother country increased 78 per cent, those from the United States 140 per cent. Professor Flux, in the *Economic Journal* for December, 1903 (p. 173), gives two explanations for the relatively greater increase in the trade of Canada with the United States than with Great Britain: "The one is that the goods which are most suitable to the Canadian market are, to a large extent, identical with those which are suitable to the markets of the United States. The British manufacturer or merchant cannot, or does not, so fully understand the needs of the Canadian trade as does the American. Add to this the convenience of sources of supply which are so much more accessible. . . . and one can begin to understand that it needs no little effort on the part of the merchants of the motherland, if the advantage of the preferential tariff is not to be lost in large

degree. A second point is that the resources of Canada are attracting capital from the United States. . . . The country which supplies the brains and funds for such work not unnaturally supplies the material means for carrying out these schemes of development." English imperial federation is a beautiful ideal and appeals very strongly to sentiment—at least to Anglo-Saxon sentiment. I wish it might be realized and the world would probably be better thereby. For reasons, however, suggested in the foregoing I do not think it can be effected at least under the political leadership of Great Britain. Anglo-Saxon federation may, and I believe will, realize itself in North America, South Africa, Australia and possibly elsewhere, and common political, economic and social bonds will probably in the future, as in the past, bring more or less unity of action on the part of the English speaking peoples. In North America almost every factor—contiguous territory, racial affiliation, economic interdependence, climate—all point toward economic and political amalgamation *of the people* of this continent.

S. J. McLEAN: In Canada preferential tariffs and reciprocal arrangements in regard to trade have been interestingly inter-related. Both have connected themselves with particular phases of the economic conditions of that country and the ascendancy of one has been at the expense of the other. In the early part of the nineteenth century, under a thorough going system of preferential duties, Swedish timber found its way to Quebec, and thence, through the connivance of the officials, it was shipped to England as Canadian timber. So great being the preference to the Canadian timber that after deducting the cost of this roundabout journey a consid-

erable profit would remain. To further the use of the Canadian canal system, grain from the Western States, exported to England by the Canadian waterways, was given the same preferential treatment as Canadian grain.

It was when the abolition of these preferential arrangements by England seemed to threaten the entire overthrow of Canadian trade that the movement for closer trade arrangements between Canada and the United States through reciprocal trade arrangements began. And it is noteworthy that it was in New England that the movement originated.

The trade carried on between Canada and the United States under the Reciprocity Treaty was for the most part simply one of convenience. The termination of the treaty seriously affected the business interests of Canada. The railways running through Western Ontario suffered a great falling off in revenues. There lingered for years a desire for reciprocity. The National Policy, which was introduced in 1878, had as one avowed phase the hope that through pressure reciprocity with the United States could be obtained. The statement was made that there would be either reciprocity of trade or reciprocity of tariffs.

Although the Liberal party, while in opposition, favored reciprocity with the United States this was in part at least due to the natural antagonism of their position to the Conservatives who had become less and less interested in reciprocity. Since 1896 the policy of the Liberal party in regard to protection has been one of enlightened opportunism. The policy which has been pursued has, on the whole, been productive of results. The modifications of tariff have been coincident with wider changes. In all except population Canada is in about the same position as the Northwestern States

were in 1870. There is the same movement of population, the same railroad expansion, and the same westward movement of capital.

While from time to time great interest in reciprocity has been shown in Canada, to-day I am within the facts in saying that barely a corporal's guard could be elected to the Canadian Parliament on a reciprocity platform.

As soon as a preference was given by Canada to England the question arose as to what Canadians received in return. It was alleged that the favorable sentiment created in England by reducing the tariff would increase the demand for Canadian goods. There has been an increased demand for various lines of Canadian goods, but a very considerable part of it must be attributed to the very energetic advertising policy carried on by some of the departments of the Canadian government.

As regards the relations of Canada to Great Britain under the proposed mutual preference, many difficulties appear. In Canada any change in the tariff which would lead to the manufacturers' interests being harrassed would be unjustifiable. Looking at the matter from the standpoint of Canada, any changes in the tariff which would lead to Canadian manufactured products being supplanted by English manufactured products are not in the interest of Canada. It has already been shown that the colonies in general will not accept the suggestion at one time made by the Hon. Joseph Chamberlain that they should simply concern themselves with the production of raw materials.

Whatever may be done in regard to preference, Canada will insist on going on developing its manufacturing interests. The great West is to be opened up, and Canada will insist that the manufactured products demanded in the West shall come from Canadian facto-

ries—in the first place, from the factories of the East ; later from factories established in the West.

From the standpoint of the effect on England of the adoption of preferential policy, difficulties also appear. It is alleged that Canada is able to produce large supplies of agricultural products which will be in demand in England. Admitting this, it is none the less apparent that if at present the policy of preference were adopted by England, if England were to depend to a great extent upon supplies of agricultural products from Canada, there would not be that immediate adequate response in supply which the demands of the consuming public in England would necessitate. In other words, we would have whatever supply was given at a considerable increase in cost.

While the aspirations of many who desire to see a tariff wall around the empire—an empire which would have for a bulwark a tariff—are perhaps commendable from the standpoint of the ideal ; from the standpoint of the practical, all one can say is that preference should have applied to it the Scotch verdict, “ not proven.”